



Self Assessment Audit of the City of El Paso Internal Audit Office

**Prepared in Accordance with Generally Accepted
Government Auditing Standards (GAGAS)**

Issued by the
Internal Audit Office
June 22, 2007

**City of El Paso
Internal Audit Office
Self-Assessment**

EXECUTIVE SUMMARY

We have completed an internal self-assessment of the City of El Paso Internal Audit Office for the period September 1, 2006 through June 22, 2007. We reviewed the policies and procedures of the Internal Audit Office and conducted tests in order to determine if these policies and procedures provide reasonable assurance of compliance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States.

Currently the City of El Paso Internal Audit organization's policies and procedures are not suitably designed to reasonably assure compliance with applicable standards contained in *Government Auditing Standards*, 2003 Revision, due to a lack of formalized Generally Accepted Government Auditing Standards (GAGAS) policies and procedures in the area of,

- Financial Audits, Attestation Engagements, Performance Audits and Non-Audit Services as defined by GAS.
- In addition, the City of El Paso Internal Audit organization is currently not in a position to comply or expand its compliance with applicable standards contained in *Government Auditing Standards*, 2003 Revision, (GAS) without first implementing the appropriate changes to its policies and procedures.
- Changes to the current Internal Audit Office policies and procedures will require substantial time and effort to implement as these changes involve highly technical guidance and additional training requirements for staff.
- Although non-compliance with GAS was noted, the Internal Audit Office is in strict compliance with the *International Standards for the Professional Practice of Internal Auditing* as set forth by the Institute of Internal Auditors (IIA). Please refer to the separate self-assessment report conducted under the *International Standards for the Professional Practice of Internal Auditing*.
- While compliance with the *International Standards for the Professional Practice of Internal Auditing* is appropriate, compliance with Generally Accepted Government Auditing Standards should enhance and improve the professional services the City of El Paso Internal Audit Office can provide. Therefore, Internal Audit Office management has made compliance with GAS a long-term objective.

For a detailed description and discussion of the above summaries please refer to the appropriate findings and recommendations in the body of this report.

**City of El Paso
Internal Audit Office
Self-Assessment**

June 22, 2007

Mr. Edmundo S. Calderon
Chief Internal Auditor
City of El Paso
2 Civic Center Plaza
El Paso, TX, 79901

Dear Mr. Calderon,

We have completed an internal self-assessment of the City of El Paso Internal Audit Office for the period September 1, 2006 through June 22, 2007. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May, 2004, by the Association of Local Government Auditors (A.L.G.A.).

We reviewed the internal quality control system of the Internal Audit Office and conducted tests in order to determine if the internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of this self-assessment, it is our opinion that the Internal Audit Office's internal quality control system at this time was not suitably designed and was not operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the review period of September 1, 2006 through June 22, 2007.

We found deficiencies in the internal quality control system relating to policies and procedures with regards to Generally Accepted Government Auditing Standards (GAGAS). These control deficiencies resulted in recurring nonconformance with GAGAS. We have prepared and are providing details of findings and recommendations for strengthening the internal quality control system, these are provided in the body of the report.

Cesar L. Martinez, CIA, CGAP
Internal Audit Manager

**City of El Paso
Internal Audit Office
Self-Assessment**

Finding 1

Review of Internal Audit's Quality Control System

Currently the City of El Paso Internal Audit organization's system of internal quality control is not suitably designed to reasonably assure compliance with applicable standards contained in *Government Auditing Standards*, 2003 Revision, (GAS) due to a lack of formalized Generally Accepted Government Auditing Standards (GAGAS) policies and procedures in its current policies and procedures framework.

The following summarizes our evaluation based on the applicable standards.

STANDARDS	Adequate Policies & Procedures		
	Yes	No	N/A

GENERAL STANDARDS:

INDEPENDENCE	√
PROFESSIONAL JUDGMENT	√
COMPETENCE	√
QUALITY CONTROL AND ASSURANCE	√

**STANDARDS FOR FINANCIAL AND ATTESTATION
ENGAGEMENTS:**

AICPA STANDARDS	√
AUDITOR COMMUNICATION	√
FOLLOW UP	√
FRAUD, ILLEGAL ACTS, VIOLATIONS AND ABUSE	√
DOCUMENTATION	√
REPORTING – AICPA STANDARDS	√
REPORTING AUDITOR'S COMPLIANCE WITH GAS	√
REPORTING ON INTERNAL CONTROL AND COMPLIANCE	√
REPORTING DEFICIENCIES IN INTERNAL CONTROL, FRAUD, ILLEGAL ACTS, VIOLATIONS, AND ABUSE	√
REPORTING VIEWS OF RESPONSIBLE OFFICIALS	√
REPORTING PRIVILEGED AND CONFIDENTIAL INFORMATION	√
REPORT ISSUANCE AND DISTRIBUTION	√

**City of El Paso
Internal Audit Office
Self-Assessment**

STANDARDS	Adequate Policies & Procedures		
	Yes	No	N/A

STANDARDS FOR PERFORMANCE AUDITS:

PLANNING	√
SUPERVISION	√
EVIDENCE	√
DOCUMENTATION	√
REPORTING - FORM	√
REPORTING - REPORT CONTENTS	√
REPORTING - REPORT QUALITY ELEMENTS	√
REPORTING - ISSUANCE AND DISTRIBUTION	√

Recommendation

Internal Audit Office Management should formalize the Generally Accepted Government Auditing Standards (GAGAS) in its current policies and procedures framework to ensure compliance with GAGAS.

Management's Response

Work will begin to complete a strategic plan to implement the recommendation.

Responsible Party

Chief Internal Auditor

Implementation Date

Fiscal Year 2007-2008

**City of El Paso
Internal Audit Office
Self-Assessment**

Finding 2

Review of Audit Engagement/Documentation

Currently the City of El Paso Internal Audit organization is not in a position to comply with a system of internal quality control to reasonably assure compliance with applicable standards contained in *Government Auditing Standards*, 2003 Revision, (GAS) as there is no formalized Generally Accepted Government Auditing Standards (GAGAS) identified in its current policies and procedures framework.

The following summarizes our evaluation of compliance with the applicable standards contained in *Government Auditing Standards*, 2003 Revision, (GAS).

STANDARDS	Policies & Procedures Carried Out & Complied With Standards		
	Yes	No	N/A

GENERAL STANDARDS:

INDEPENDENCE	√
PROFESSIONAL JUDGMENT	√
COMPETENCE	√
QUALITY CONTROL AND ASSURANCE	√

**STANDARDS FOR FINANCIAL AND
ATTESTATION ENGAGEMENTS:**

AICPA STANDARDS	√
AUDITOR COMMUNICATION	√
FOLLOW UP	√
FRAUD, ILLEGAL ACTS, VIOLATIONS AND ABUSE	√
DOCUMENTATION	√
REPORTING – AICPA STANDARDS	√
REPORTING AUDITOR’S COMPLIANCE WITH GAS	√
REPORTING ON INTERNAL CONTROL AND COMPLIANCE	√
REPORTING DEFICIENCIES IN INTERNAL CONTROL, FRAUD, ILLEGAL ACTS, VIOLATIONS, AND ABUSE	√
REPORTING VIEWS OF RESPONSIBLE OFFICIALS	√

**City of El Paso
Internal Audit Office
Self-Assessment**

STANDARDS	Policies & Procedures Carried Out & Complied With Standards		
	Yes	No	N/A

REPORTING PRIVILEGED AND CONFIDENTIAL
INFORMATION
REPORT ISSUANCE AND DISTRIBUTION

√
√

STANDARDS FOR PERFORMANCE AUDITS:

PLANNING
SUPERVISION
EVIDENCE
DOCUMENTATION
REPORTING - FORM
REPORTING - REPORT CONTENTS
REPORTING - REPORT QUALITY ELEMENTS
REPORTING - ISSUANCE AND DISTRIBUTION

√
√
√
√
√
√
√
√

Recommendation

Before management can assess compliance to applicable standards either internally or through an external review, Internal Audit Office Management should formalize the Generally Accepted Government Auditing Standards (GAGAS) in its current policies and procedures framework to ensure compliance with GAGAS. In addition, Internal Audit Office Management should provide training to staff to ensure implementation and compliance with the applicable standards.

Management's Response

Work will begin to establish a Strategic Plan to implement Generally Accepted Government Auditing Standards (GAGAS) into the Internal Audit Office policies and procedures manual.

Responsible Party

Chief Internal Auditor

Implementation Date

Fiscal Year 2007-2008

**City of El Paso
Internal Audit Office
Self-Assessment**

Quality Control System

The following is a brief description of the applicable standards as they relate to the City of El Paso's Internal Audit Office Quality Control System. These standards have been condensed for ease and are presented to assist management in addressing the non-compliance identified in Finding 1. For additional applicability, corrective actions should be used along with the related guidance identified under the appropriate standards. Non-compliance identified in Finding 1 is limited to Government Auditing Standards (GAS) 2003 revisions. While compliance to the *International Standards for the Professional Practice of Internal Auditing* was noted, specific compliance to GAS was not addressed in the policies and procedures manual of the Internal Audit Office.

GENERAL STANDARDS:

INDEPENDENCE

1. Have P&P to identify and resolve personal impairments. Communicate P&P to staff and monitor compliance. (GAS 3.05-3.09, 3.12-3.20)
2. Be free from external impairments. Have P&P for resolving and reporting external impairments. (GAS 3.19-3.20)
3. Be free from organizational impairments (GAS 3.21):
 - A. When reporting externally to 3rd parties, through appropriate reporting or organizational structure (GAS 3.22-3.24) or through other statutory safeguards (GAS 3.25-3.26)
 - B. When reporting internally to management, by meeting all statutory safeguards (GAS 3.27) and documenting conditions allowing organizational independence (GAS 3.27-3.32)

PROFESSIONAL JUDGMENT

4. Use professional judgment in applying GAS and justify any departures. (GAS 3.34-3.38)

COMPETENCE

5. Have a process for recruiting, hiring, continuously developing, and evaluating staff. (GAS 3.40)
6. Staff and consultants have adequate knowledge, skills, and experience. (GAS 3.42)

**City of El Paso
Internal Audit Office
Self-Assessment**

7. Auditors performing financial audits or attestation engagements have knowledge of relevant standards. (GAS 3.43)
8. Audit organizations ensure that auditors maintain 80 hours CPE every two years. (GAS 3.45, 3.46)

QUALITY CONTROL

9. Have appropriate internal quality control system. (GAS 3.50-3.51)
10. Have external peer review every three years. (GAS 3.52-3.56)

FINANCIAL AND ATTESTATION STANDARDS:

AICPA STANDARDS

11. Follow AICPA standards and similar GAS. (GAS 4.03, 6.03, 6.04, 6.13, 6.14)
12. Communicate planned testing and reporting. (GAS 4.06-4.13, 5.38, 6.06-6.09, 6.54)

FOLLOW UP

13. Follow up on findings from prior audits/engagements. (GAS 4.14-4.16, 6.10-6.12)

FRAUD, ILLEGAL ACTS, ETC.

14. Design work to detect material fraud, illegal acts and violations that are significant to audit objectives. (GAS 4.17, 4.18, 6.15-6.18)
15. Be alert for indications of material abuse. (GAS 4.17, 4.19, 6.15, 6.19)
16. Do not interfere with investigations or legal proceedings. (GAS 4.20, 5.25, 6.20, 6.40)

DOCUMENTATION

17. Adequately document work prior to report issuance. (GAS 4.22-4.24, 6.22-6.24)

REPORTING

- 18A. Follow AICPA standards for financial audits. (GAS 5.03)

**City of El Paso
Internal Audit Office
Self-Assessment**

- 18B. Follow AICPA standards for attestation engagements. (GAS 6.27)
- 19. Cite GAS in report, disclose when not followed. (GAS 5.05-5.07, 6.29-6.31)
- 20. Report on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements. (GAS 5.08-5.11)
- 21. Report significant deficiencies in internal control, fraud, illegal acts, violations and abuse. (GAS 5.12-5.25, 6.32-6.40)
- 22. Report views and plans of responsible officials. (GAS 5.26-5.30, 6.41-6.45)
- 23. Report the nature of and requirement for omitted information. (GAS 5.31-5.33, 6.46-6.48)
- 24. Submit reports to appropriate officials and make available to public. (GAS 5.34-5.38, 6.49-6.54)

PERFORMANCE STANDARDS:

PLANNING

- 25. Plan work adequately. (GAS 7.07)
- 26. Obtain understanding of internal controls significant to the audit objectives; test if relying upon them; consider test results in designing audit procedures. (GAS 7.11-7.16)
- 27. Design work to detect significant illegal acts, violations and fraud that are significant to audit objectives. (GAS 7.17-7.24)
- 28. Be alert to situations or transactions indicative of abuse. (GAS 7.25)
- 29. Exercise due care in pursuing possible fraud, illegal acts, violations or abuse; don't interfere with legal proceedings or investigations. (GAS 7.26)
- 30. Follow up on significant findings from previous audits that directly relate to audit objectives. (GAS 7.29,7.30)
- 31. Identify previous audit work and assess its reliability before using. (GAS 7.32-7.34)
- 32. Assign sufficient number of appropriately skilled staff. (GAS 7.35)

**City of El Paso
Internal Audit Office
Self-Assessment**

33. Communicate planned testing and reporting. Follow appropriate requirements if audit terminated before completed. (GAS 7.39, 7.40, 8.06)

34. Prepare and update a written audit plan. (GAS 7.41-7.43)

SUPERVISION

35. Properly supervise staff. Document supervision in working papers. (GAS 7.45-7.47)

EVIDENCE

36. Obtain sufficient, competent, and relevant evidence for findings and conclusions. (GAS 7.48-7.61)

DOCUMENTATION

37. Prepare and maintain audit documentation related to planning, conducting, and reporting on the audit. (GAS 7.66-7.68)

REPORTING

38. Prepare written audit report. (GAS 8.02-8.05)

39. Report objectives, scope, and methodology. (GAS 8.07-8.12)

40. Report audit results, including findings, conclusions, and recommendations. (GAS 8.07, 8.13-8.16, 8.27-8.29)

41. Report scope of work on internal controls and any significant deficiencies found. (GAS 8.17, 8.18)

42. Report likely fraud, illegal acts, violations, abuse. (GAS 8.19-8.26)

43. Refer to management letter in audit report. Document all communication regarding deficiencies found. (GAS 8.17, 8.21)

44. Cite GAS in report, disclose when not followed. (GAS 8.07, 8.30)

45. Report views and plans of responsible officials. (GAS 8.07, 8.31-8.34)

46. Report the nature of and requirement for omitted information. (GAS 8.07, 8.35-8.37)

**City of El Paso
Internal Audit Office
Self-Assessment**

47. Audit report should be timely; consider interim reporting. (GAS 8.38-8.40)
48. Audit report should be complete, accurate, objective, convincing, clear and concise. (GAS 8.38, 8.41-8.53)
49. Submit report to appropriate officials and make available to the public. (GAS 8.54-8.57)

Audit Engagement/Documentation

The following is a brief description of the applicable standards as they relate to the City of El Paso's Internal Audit Office Audit Engagement/Documentation procedures. These standards have been condensed for ease and are presented to assist management in addressing the non-compliance identified in Finding 2. For additional applicability, corrective actions should be used along with the related guidance identified under the appropriate standards. Non-compliance identified in Finding 2 is limited to Government Auditing Standards (GAS) 2003 revisions. While compliance to the *International Standards for the Professional Practice of Internal Auditing* was noted, non-compliance to GAS is based on a lack of an underlying framework (Quality Control System to include policies and procedures) to allow for incorporation of GAS requirements in the implementation, engagement and documentation of audit objectives within the Internal Audit Office.

GENERAL STANDARDS:

INDEPENDENCE

1. Had P&P to identify and resolve personal impairments. Communicated P&P to staff and monitored compliance. (GAS 3.05-3.09, 3.12-3.20)
2. Was free from external impairments. Had P&P for resolving and reporting external impairments. (GAS 3.19-3.20)
3. *Quality Control System Only*

PROFESSIONAL JUDGMENT

4. Used professional judgment in applying GAS and justified departures, if any. (GAS 3.34-3.38)

COMPETENCE

5. *Quality Control System Only*

**City of El Paso
Internal Audit Office
Self-Assessment**

6. Staff and consultants had adequate knowledge, skills, and experience. (GAS 3.42)
7. Auditors performing financial audits or attestation engagements had knowledge of relevant standards. (GAS 3.43)
8. *Quality Control System Only*

QUALITY CONTROL

9. Followed established internal quality control system. (GAS 3.50-3.51)
10. *Quality Control System Only*

FINANCIAL AND ATTESTATION STANDARDS:

AICPA STANDARDS

11. Followed AICPA standards and similar GAS. (GAS 4.03, 6.03, 6.04, 6.13, 6.14)

AUDITOR COMMUNICATION

12. Communicated planned testing and reporting. (GAS 4.06-4.13, 5.38, 6.06-6.09, 6.54)

FOLLOW UP

13. Followed-up on findings from prior audits/engagements. (GAS 4.14-4.16, 6.10-6.12)

FRAUD, ILLEGAL ACTS, ETC.

14. Designed work to detect material fraud, illegal acts and violations. (GAS 4.17, 4.18, 6.15-6.18)
15. Was alert for indications of material abuse. (GAS 4.17, 4.19, 6.15, 6.19)
16. Did not interfere with investigations or legal proceedings. (GAS 4.20, 5.25, 6.20, 6.40)

DOCUMENTATION

17. Adequately documented work prior to report issuance. (GAS 4.22-4.24, 6.22-6.24)

**City of El Paso
Internal Audit Office
Self-Assessment**

REPORTING

- 18A. Followed AICPA standards for financial audits. (GAS 5.03)
- 18B. Followed AICPA standards for attestation engagements. (GAS 6.27)
- 19. Cited GAS in report; disclosed if not followed. (GAS 5.05-5.07, 6.29-6.31)
- 20. Reported on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements. (GAS 5.08-5.11)
- 21. Reported significant deficiencies in internal control, fraud, illegal acts, violations and abuse. (GAS 5.12-5.25, 6.32-6.40)
- 22. Reported views and plans of responsible officials. (GAS 5.26-5.30, 6.41-6.45)
- 23. Reported the nature of and requirement for omitted information. (GAS 5.31-5.33, 6.46-6.48)
- 24. Submitted reports to appropriate officials and made available to public. (GAS 5.34-5.38, 6.49-6.54)

PERFORMANCE STANDARDS:

PLANNING

- 25. Planned work adequately. (GAS 7.07)
- 26. Obtained understanding of internal controls significant to the audit objectives; tested if controls were relied upon; considered test results in designing audit procedures. (GAS 7.11-7.16)
- 27. Designed work to detect significant illegal acts, violations and fraud that were significant to audit objectives. (GAS 7.17-7.24)
- 28. Was alert to situations or transactions indicative of abuse. (GAS 7.25)
- 29. Exercised due care in pursuing possible fraud, illegal acts, violations or abuse; did not interfere with legal proceedings or investigations. (GAS 7.26)
- 30. Followed-up on significant findings from previous audits that directly related to audit objectives. (GAS 7.29,7.30)

**City of El Paso
Internal Audit Office
Self-Assessment**

- 31. Identified previous audit work and assessed its reliability before using. (GAS 7.32-7.34)
- 32. Assigned sufficient number of appropriately skilled staff. (GAS 7.35)
- 33. Communicated planned testing and reporting. Followed appropriate requirements if audit terminated before completed. (GAS 7.39, 7.40, 8.06)
- 34. Prepared and updated a written audit plan. (GAS 7.41-7.43)

SUPERVISION

- 35. Properly supervised staff and documented supervision in working papers. (GAS 7.45-7.47)

EVIDENCE

- 36. Obtained sufficient, competent, and relevant evidence for findings and conclusions. (GAS 7.48-7.61)

DOCUMENTATION

- 37. Prepared and maintained audit documentation related to planning, conducting, and reporting on the audit. (GAS 7.66-7.68)

REPORTING

- 38. Prepared written audit report. (GAS 8.02-8.05)
- 39. Reported objectives, scope, and methodology. (GAS 8.07-8.12)
- 40. Reported audit results, including findings, conclusions, and recommendations. (GAS 8.07, 8.13-8.16, 8.27-8.29)
- 41. Reported scope of work on internal controls and any significant deficiencies found. (GAS 8.17, 8.18)
- 42. Reported likely fraud, illegal acts, violations, abuse. (GAS 8.19-8.26)
- 43. Referred to management letter in audit report. Documented all communication regarding deficiencies found. (GAS 8.17, 8.21)
- 44. Cited GAS in report and disclosed if not followed. (GAS 8.07, 8.30)

**City of El Paso
Internal Audit Office
Self-Assessment**

- 45. Reported views and plans of responsible officials. (GAS 8.07, 8.31-8.34)
 - 46. Reported the nature of and requirement for omitted information. (GAS 8.07, 8.35-8.37)
 - 47. Audit report issued timely; considered interim reporting. (GAS 8.38-8.40)
 - 48. Audit report complete, accurate, objective, convincing, clear and concise. (GAS 8.38, 8.41-8.53)
 - 49. Submitted report to appropriate officials and made available to the public. (GAS 8.54-8.57)
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Distribution:

Fiscal Affairs & Management Support/Internal Audit Committee

Joyce A. Wilson, City Manager

William F. Studer Jr., Deputy City Manager, Financial & Administrative Services